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BEFORE THE ARIZONA CORPORATION COI

Arizona Corporation Commission

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AZ CORP COMMISSION
INDEPENDENT CONTROL



CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
CITIZENS UTILITIES COMPANY FOR
APPROVAL OF ITS PLAN FOR STRANDED
COST RECOVERY.

DOCKET NO. E-01032C-98-0474

IN THE MATTER OF THE FILING BY
CITIZENS UTILITIES COMPANY OF
UNBUNDLED AND STANDARD OFFER
SERVICE TARIFFS PURSUANT TO A.A.C.
R14-2-1606.

DOCKET NO. E-01032C-97-0774

IN THE MATTER OF COMPETITION IN
THE PROVISIONS OF ELECTRIC
SERVICES THROUGHOUT THE STATE OF
ARIZONA.

DOCKET NO. RE-0000C-94-0165

Citizens Utilities Company hereby provides Notice of Filing Direct Testimony
in regard to Stranded Cost Recovery and Unbundled and Standard Offer Service
for Sean R. Breen in the above-referenced docket.

RESPECTFULLY SUBMITTED on May 22, 2000.

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\\PHOENIX\VOL1\PHOENIX\Craig~docs\Electric Restructuring Matters\Notice of Filing Sean Breen Testimony 5-22-00.doc

1 Q. Please state your name and business address.

2 A. My name is Sean R. Breen. I am employed as Director of Energy Services
3 for Citizens Utilities Company ("Citizens"), 1300 South Yale Street,
4 Flagstaff, Arizona.

5
6 Q. Are you the same Sean R. Breen who has testified previously in these
7 dockets.

8 A. Yes, I am. My relevant experience and qualifications were set forth in my
9 testimony in Docket No. RE-00000C-94-0165, submitted January 9, 1998.

10
11 Q. What is the purpose of your testimony?

12 A. The purpose of my testimony is to present the background and status of
13 activities undertaken by Citizens in support of the introduction of retail
14 electric competition for its Arizona Electric Division.

15
16 Q. Please summarize your testimony.

17 A. My testimony describes Citizens' participation in the Arizona electric
18 competition proceedings and updates Citizens' proposals on its Stranded
19 Costs and Unbundled and Standard Offer rates from its March 1999 filing.

20
21 Q. Does Citizens support the concept of introducing retail electric competition?

22 A. Yes, it does. Citizens believes that introducing competition for electric
23 services has the potential for increasing service options available to
24 customers and lowering electric power costs. For these reasons, Citizens
25 has actively supported the electric restructuring process since the 1994
26 inception of the Arizona proceedings.

1 Q. Do Citizens' shareholders stand to gain from the introduction of
2 competition?

3 A. No, they do not. Under the approved Electric Competition Rules ("Rules"),
4 Citizens has no opportunity to increase earnings beyond what they would
5 be absent the introduction of retail competition. Of course, it is equally
6 important, that earning reductions should not occur.

7
8 Q. Why can't Citizens increase earnings?

9 A. Early in the process Citizens made the decision to focus its business
10 resources on its core capabilities as an electric distribution, or "Wires,"
11 company." Citizens has no plans to enter the electric business segments
12 made competitive under the Rules. The introduction of electric competition
13 therefore offers Citizens no direct upside potential for increased business
14 volumes or earnings for its Arizona Electric operations.

15
16 Q. Does electric competition present downside potential for Citizens?

17 A. Yes, it does. Electric competition presents increased cost recovery risk.
18 Without orders from the Commission, which clearly authorize Citizens to
19 recover the costs stranded by the loss of sales to competition and the
20 incremental costs for implementing retail direct access, Citizens faces the
21 risk of financial loss. Moreover, delays in the recovery of costs of service,
22 beyond what exists under the existing regulatory framework, will increase
23 Citizens' business and financial risks.

24
25 Q. If there is no potential for gain, and only a risk of financial loss, why has
26 Citizens continued to support electric competition?

1 A. Citizens supports the introduction of retail electric competition because our
2 customers have clearly indicated their desire for choice. Moreover, Citizens
3 supports the introduction of competition because of the potential benefit to
4 customers in the form of improved economic conditions. Citizens'
5 shareholders benefit indirectly when Citizens promotes the economic vitality
6 of its service areas. Introducing competition for electric services may
7 indeed help in this regard.

8
9 Q. What has Citizens done to support the introduction of electric competition in
10 Arizona?

11 A. Citizens has committed substantial human and financial resources to the
12 restructuring of the Arizona electric industry in the areas of rulemaking,
13 implementation planning and development, and ratemaking/regulatory
14 activities.

15
16 Q. In what ways has Citizens contributed to the rulemaking process?

17 A. The participants in the Arizona electric restructuring process have worked
18 diligently to identify and address the broad range of issues arising with the
19 introduction of electric competition. Since 1994, Citizens has actively
20 participated with the Commission Staff and other stakeholders to develop
21 guiding principles, create the competition rules, and establish the structures
22 and processes through which the transition to a competitive electric
23 industry can occur in a timely, equitable and efficient manner. For more
24 than six years, Citizens representatives have actively participated in the
25 numerous groups (working groups, subcommittees, task forces, etc.) that
26 have been created to identify and resolve the myriad issues. Throughout
27 the process, Citizens has maintained a proactive stance, seeking to find
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1 solutions to the complex and contentious issues as an agent for effective
2 change. Citizens continues to actively today to support the on-going efforts
3 in the development of standardized processes and market structures for
4 electric competition.

5
6 Q. Why are implementation planning, and development activities important to
7 retail direct access.

8 A. Without substantially modifying the existing operating practices and
9 structure of utility distribution companies ("UDC"), efficient implementation
10 of retail direct access would be most difficult to achieve. Beginning in the
11 fourth quarter 1998, following the Commission's approval of the emergency
12 competition rules, and continuing again in late 1999 and 2000 (following
13 the stay in the competition rules in early 1999 and the subsequent approval
14 of the final competition rules in September 1999), Citizens has undertaken
15 a significant effort to prepare its operational systems, employees and
16 customers for the introduction of electric competition. Implementation of
17 retail direct access impacts virtually every aspect of UDC operations. The
18 existing systems, processes, and procedures for maintaining the traditional
19 operations of energy procurement, metering, meter reading, billing,
20 customer information, customer and cost accounting all must be
21 significantly modified to accommodate retail direct access. In addition,
22 major new processes for establishing electronic communications with
23 multiple service providers; processing direct access service requests;
24 managing transactions among multiple market participants; and forming
25 and managing new business relationships with competitive providers are all
26 necessary to support electric competition.

1 Q. What has Citizens done to prepare its operations for retail direct access?

2 A. Citizens has established a Direct Access Implementation Team ("DAIT")
3 whose exclusive focus is preparing operations, employees, and customers
4 for electric competition. The DAIT is charged with: 1) designing the
5 required new business processes and existing process modifications; 2)
6 developing and testing new work plans and processes; 3) implementing
7 those processes; and 4) providing the necessary employee training and
8 customer education to allow for an effective rollout of retail direct access in
9 Citizens' service areas. To date, the DAIT has achieved the greatest
10 progress in steps 1 & 2 – the design and planning for direct access
11 implementation. This design and planning work has focused upon the
12 requirements under the Rules, and the preliminary findings of the
13 Commission's Process Standardization Working Group ("PSWG"). The DAIT
14 will undertake the significant amount of additional work remaining, the bulk
15 of which can not realistically proceed until Citizens has received an order
16 from the Commission in this proceeding. Citizens estimates that four
17 months of additional effort will be required after a Commission order in this
18 matter to complete its preparations for retail direct access.

19
20 Q. What ratemaking/regulatory activities has Citizens undertaken in support of
21 electric competition?

22 A. Citizens has undertaken significant activities in support of its unbundled
23 electric rates, the recovery of strandable costs, and the settlement with key
24 parties of the principles guiding retail direct access implementation.

25
26 Q. Please provide the background and status of Citizens' unbundled electric
27 rates.

1 A. Citizens submitted a timely filing of its unbundled electric tariffs in
2 December 1997 in compliance with the then-current electric competition
3 rules. The revenue-requirement and sales levels implicit in the unbundled
4 rates mirrored the bases of the tariffs put into effect in January 1997 as a
5 result of Citizens' last rate case. The unbundled rates reflected a number of
6 rate design proposals by Citizens to make them more cost reflective, a
7 significant consideration with the introduction of retail competition.
8 Following extensive negotiations with the parties during 1998, a settlement
9 was reached in which Citizens agreed to unbundle its electric tariffs "as is,"
10 that is, maintaining the cost allocation methodologies and factors among
11 customer classes and relationships between customer, energy, and demand
12 charges implicit in the existing electric tariffs. Unbundled tariffs consistent
13 with this agreement were filed with the Commission in December 1998 (but
14 not subsequently approved) and once again, with slight modifications, in
15 July 1999, to comply with the competition rules. In December 1999,
16 Citizens filed a revised set of bundled electric tariffs (which were
17 subsequently approved by the Commission in Decision No. 62082) to
18 correct certain errors recently discovered that had been made in developing
19 the rates approved in its last rate case. Citizens intends to file an updated
20 set of unbundled electric rates in this proceeding that reflect the revised
21 tariffs, the changes needed to comport with the current Rules, and the
22 specific terms of a Commission order in this case.

23
24 Q. Please provide the a narrative description of events relating to Citizens'
25 requested recovery of costs stranded by the introduction of retail electric
26 competition.

1 A. Following the Commission hearing process conducted in early 1998,
2 Citizens submitted a timely filing in August 1998 of an estimate of its
3 potential stranded costs and a proposed recovery mechanism. In March
4 1999, in compliance with the Rules, Citizens filed an update to its initial
5 stranded cost estimate that described the results of Citizens' mitigation
6 efforts. These efforts led to a 60% reduction of potentially stranded costs
7 from an original estimate of approximately \$47 million to a revised total of
8 \$18 million. A significant portion of this reduction resulted from a re-
9 negotiation of Citizens' power supply agreement with Arizona Public Service
10 Company ("APS"). In December 1999, in connection with its Purchased
11 Power and Fuel Adjustment ("PPFA") mechanism, Citizens implemented a
12 bill-credit adjustment factor that is currently passing the power cost savings
13 from the APS contract re-negotiation directly to customers.

14
15 Q. Has Citizens further re-negotiated any other terms under the APS power
16 supply agreement, since its March 1999 filing, that affect its stranded costs
17 or the implementation of open access?

18 A. Yes, it has. Citizens and APS have recently reached conceptual agreement
19 to modify the existing power supply contract in two key ways that will both
20 reduce Citizens' stranded costs and facilitate open access implementation.
21 Although, a final agreement has not yet been executed, Citizens hopes to
22 complete this effort by the scheduled hearings in this case.

23
24 Q. Please explain the contract modifications that reduce stranded costs.

25 A. Under the existing agreement, which has been in place for many years,
26 Citizens is under a long-term obligation to purchase a 100 MW block of
27 baseload capacity regardless of the level of customer loads on its system.

1 While this power supply arrangement has been appropriate and beneficial
2 to customers as Citizens remained the sole electrical supplier for the
3 growing load requirements of all its customers, it is problematic under
4 competition where Citizens faces the prospect of losing a substantial portion
5 of its load to competitive suppliers. Citizens has negotiated with APS to
6 attempt to mitigate this potential problem. As part of an overall settlement
7 of issues, APS and Citizens now agree that, beginning in May 2002, Citizens
8 may reduce the amount of baseload capacity it purchases from APS
9 consistent with the net loss of load resulting from competition.
10

11 Q. How does this reduce stranded costs?

12 A. Under the existing agreement, the obligation to purchase the 100 MW of
13 capacity is a fixed cost, that is, a cost that does not change with sales
14 volume. Consequently, as load is lost to competition, the same fixed costs
15 are spread over a lower sales volume, and average unit costs tend to rise.
16 Another way to view this concept is to consider Citizens' generation
17 revenues versus costs under competition. Since generation rates are based
18 on total average cost, the revenue associated with each kWh sold recovers
19 a portion of the fixed capacity costs in the APS contract. When sales are
20 lost to competition, Citizens no longer recovers the associated generation
21 revenues, however, the fixed costs are not reduced. With the ability to
22 reduce the amount of baseload capacity Citizens purchases, the upward
23 push on unit costs, and the revenue-cost discrepancies, are virtually
24 eliminated. Consequently, Citizens' generation-related stranded costs are
25 dramatically reduced.
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1 Q. Do you have an estimate of the amount of reduction of stranded costs
2 resulting from this change?

3 A. I have not quantified the impact at this time, however, in general terms this
4 change in the contract all but eliminates unrecoverable generation costs
5 caused by the introduction of competition. The total exposure of the
6 potentially unrecoverable generation costs can be demonstrated by
7 considering their magnitude relative to total generation costs. In 1999, the
8 baseload capacity payments under the APS contract and total retail sales
9 were approximately \$19.3 million and 1.1 million megawatt-hours,
10 respectively. This translates to an average cost of approximately 1.75
11 cents per kilowatt-hour ("kWh") of sales. Total 1999 average generation
12 costs for Citizens are in the area of 4.5 cents per kWh. Thus the total
13 exposure of potentially unrecoverable fixed generation costs is equivalent
14 to about 40% of current total generation costs. With the changes in the
15 APS contract, the prospect of these costs becoming stranded by
16 competition is virtually eliminated.

17
18 Q. Why is this important relative to establishing Citizens' Competitive
19 Transition Charge ("CTC")?

20 A. Ratepayer equity dictates that, when customers depart their host utility
21 generation service to take advantage of competitively-price electricity, they
22 do not leave the remaining customers with the burden of paying for
23 unrecoverable fixed generation costs. If this were to occur, departing
24 customers would enjoy lower rates at the expense of increased rates for
25 Standard Offer customers. To prevent this from occurring, a CTC would
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1 need to be set so that departing customers continue to pay their share of
2 fixed generation costs. As a result of the negotiated APS contract changes,
3 this portion of the CTC is virtually eliminated.
4

5 Q. You state that these costs are "virtually" eliminated. Why are they not
6 totally eliminated?

7 A. There are two reasons why these costs are not totally eliminated. First, the
8 contract changes do not take effect until May 2002. In the meantime,
9 Citizens anticipates that its system will be open to direct access much
10 sooner, within the next several months. Consequently, there may be some
11 fixed generation transition costs that are potentially stranded in the interim.
12 Second, the terms of the contract amendments dictate that the reductions
13 in baseload contract demand are determined in advance for the coming
14 year, based on verifiable net load loss. Projecting this value will involve
15 certain assumptions about near-term future events, and therefore will be
16 subject to some degree of uncertainty. Undoubtedly there will be some
17 variance between actual and anticipated outcomes that will require
18 subsequent correcting adjustments over time. These factors will need to be
19 reflected in the design of Citizens' CTC in order to fully recover costs
20 stranded by the introduction of competition.
21

22 Q. Please explain the recent APS contract changes that facilitate open access
23 implementation in Citizens' service areas.

24 A. In its current form, billing under the APS contract is based on the total
25 electrical usage metered at a number of input points into Citizens' system.
26 The amount of power flowing across these metering points will not change
27 just because of competition, however, Citizens will actually be selling only a
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1 portion of the total load – the difference represents power sold by
2 competitive providers to their customers. Under the conceptual agreement
3 reached with APS, the companies will restructure the relevant provisions in
4 the contract so that Citizens pays only for the power actually consumed by
5 its Standard Offer customers.

6
7 Q. What are Citizens' current proposals on recovery of stranded costs?

8 A. In general, Citizens continues to support the stranded cost recovery
9 proposals set forth in testimony filed March 1999.

10
11 Q. Please summarize those proposals.

12 A. My March 1999 testimony addressed five broad areas relating to stranded
13 costs: generation-related costs; regulatory assets; metering and billing
14 costs; transition costs; and the stranded cost recovery mechanism.

15
16 Q. Please address generation-related stranded costs.

17 A. My March 1999 testimony recommended that Citizens delay the proposed
18 divestiture of the APS contract (Citizens' proposal from its August 1998
19 stranded cost filing) in light of the negotiated reductions in the contract
20 pricing. Such a delay, it was suggested, would provide the Commission
21 with better information than was currently available to judge whether
22 Citizens' contract was sufficiently above market price to justify costs and
23 risks of divestiture. Citizens now believes that because of the recent
24 agreement with APS allowing the company to reduce its baseload capacity
25 purchases consistent with net competitive load loss, it is not necessary for
26 Citizens to divest the APS contract.

1 Q. Why is that so?

2 A. As I have described previously, the new provisions allowing reductions of
3 baseload capacity purchases effectively eliminate the potentially
4 unrecoverable fixed generation costs under the contract. While a portion of
5 Citizens' generation costs may continue to be above-market, the departure
6 of customers seeking competitive power supplies no longer impacts the
7 costs for serving the remaining Standard Offer customers.
8

9 Q. What does Citizens now propose?

10 A. Citizens proposes that it be allowed to retain the APS contract for service to
11 Standard Offer customers and to continue passing generation revenues and
12 costs through its PPFA mechanism. Moreover, since the restructured
13 contract no longer poses the threat of competition-driven generation rate
14 increases, Citizens asks that the Commission waive the requirement for
15 Citizens to acquire a portion of the power to serve Standard Offer customer
16 through an open bid process.
17

18 Q. Why is this open-bid power supply issue important?

19 A. Citizens has been, and continues to be, essentially an all-requirements
20 customer of APS, at least with respect to its Standard Offer customer load.
21 If Citizens were required to secure Standard Offer power supply from
22 alternative sources, it could do so only by either abrogating the APS
23 contract or paying twice for the same power (once to APS, once to the
24 winning open-market bidder). In addition to the rate equity reasons cited
25 above, allowing Citizens to retain the contract avoids the necessity to
26 consider, as well as the costs and risks, of contract divestiture.
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1 Q. Why can't Citizens simply sell on the open market the APS contract power
2 freed-up by competition?

3 A. Citizens does not have the rights under the APS contract to any more
4 power than is metered for service to Standard Offer customers.
5

6 Q. How should generation-related stranded costs be calculated?

7 A. As described in my March 1999 testimony, Citizens should be permitted to
8 establish a net-revenues-lost procedure that accumulates the difference
9 between generation revenues lost to competition and the change in
10 generation costs associated with the lost sales.
11

12 Q. Should Citizens' Standard Offer tariffs include a generation shopping credit?

13 A. Yes, they should. Citizens believes that generation shopping credits
14 commensurate with those established for APS should be implemented
15 within Citizens' tariffs.
16

17 Q. Why is this so?

18 A. First, Citizens' power supply resources are essentially a subset of the APS
19 resource portfolio. This observation suggests that symmetry in treatment
20 between the two companies is appropriate. Moreover, recognizing that the
21 Commission-approved APS generation shopping credits have been designed
22 to reflect the market price of power, there is no reason to assert that the
23 market price of an electric power commodity should be different for
24 Citizens' customers in Arizona than for APS' customers. Finally, it is in the
25 best interest of Arizona, and the success of the competitive electric
26 industry, to avoid establishing of a patchwork of generation shopping
27 credits across the State. Non-uniform credits will result in unequal
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1 emphasis in marketing by competitive providers and therefore promote an
2 unequal opportunity for Arizona electric customers to glean the benefits of
3 electric competition. Citizens can see no reason why the Commission
4 should promote such an outcome.

5
6 Q. How does this recommendation comport with the fact that the Commission
7 has already approved generation shopping credits that are not uniform
8 across utilities.

9 A. Citizens understands that Tucson Electric Power, for instance, has a
10 different generation shopping credit than APS. However, Citizens does not
11 believe that this fact makes the benefits of greater uniformity across
12 Arizona any less desirable. APS is the State's largest electric utility and
13 serves a broad area of Arizona. Setting Citizens' generation shopping
14 credits equal to APS' credits will add Mohave and Santa Cruz Counties and
15 nearly 70,000 more customers to the portion of the State under a uniform
16 credit.

17
18 Q. Does Citizens continue to support its proposal to recover costs of its
19 Valencia generation facilities through unbundled transmission charges?

20 A. Yes it does, for reasons cited in Citizens' August 1998 stranded cost filing
21 and my March 1999 testimony.

22
23 Q. Please address Citizens' stranded costs associated with regulatory assets.

24 A. As set forth in Citizens' August 1998 stranded cost filing, and affirmed in
25 my March 1999 testimony, Citizens proposes that it be allowed to recover
26 the regulatory assets consisting of previously-deferred and unrecovered
27 DSM and DSM lost revenues as part of its stranded costs. The current

1 balance of these costs is estimated to be roughly \$3.5 million. At the time
2 of a compliance filing in this proceeding, Citizens proposes that it be
3 allowed to update the balance of these regulatory assets to properly reflect
4 carrying charges and the effect of related deferred income taxes, and to
5 include recovery of these costs in its System Benefits Charge
6

7 Q. Please address stranded costs associated with metering and billing.

8 A. Citizens continues to support its proposals for recovering metering and
9 billing costs stranded by the introduction of retail competition as set forth in
10 my March 1999 testimony. In summary, Citizens proposes to recover net
11 lost revenues calculated as the difference between metering and billing
12 revenues lost to competition and the reduction in variable costs associated
13 with departing customers who are no longer taking these services from
14 Citizens. The basic procedure for how this calculation would be done,
15 including the establishment of a metering and billing deferral account for
16 tracking these costs, is provided in my March 1999 testimony.
17

18 Q. Please address transition costs.

19 A. As described in Citizens' August 1998 stranded cost filing, and again in my
20 March 1999 testimony, Citizens anticipates substantial "transition costs" to
21 effect the implementation of retail direct access. Such costs would likely
22 not otherwise arise. Citizens continues to support the proposals for
23 accounting and recovery of transition costs described in my March 1999
24 testimony. In summary, Citizens proposes to:

- 25 • establish a Competitive Transition Deferral Account ("CTDA") for
26 accumulating legitimate incremental costs for implementing direct
27 access;
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- accumulate carrying charges on the unamortized balance in the CTDA;
- amortize deferred costs in the CTDA, subject to Commission approval, through the CTC to be established in this proceeding; and
- continue deferral and CTC amortization of costs during the initial stages of electric competition, until a more stable process is established, and thereafter, include the incremental costs of direct access implementation in basic service rates, as a component of Citizens' next general rate case.

Q. Does Citizens have an updated estimate for its transition costs?

A. No, not at this time. However, I believe the estimates included in its August 1998 filing and affirmed in my March 1999 testimony continue to be reasonable.

Q. Please address Citizens' proposed stranded cost recovery mechanism.

A. Citizens proposes a stranded cost recovery mechanism that:

1. establishes the CTC for each rate class based on the difference between total average generation costs and the generation shopping credit;
2. periodically (annually in initial stages, perhaps bi-annually thereafter), in a proceeding before the Commission, reconciles actual stranded costs and CTC revenues and considers establishment of a new CTC for the next period based in true-ups from the prior period and updated forecasts. The extent of adjustment of the CTC for any particular reconciliation would consider the impact of the adjustment on the shopping credit, recognizing that changes in the CTC necessarily

- 1 change the magnitude of the generation shopping credits;
2 3. during the transition period (consistent with the term of the APS
3 contract (2011)), allows for consideration of alternative
4 recovery/refund mechanisms to the extent the absolute value of
5 balance in the CTC account grows large (e.g. greater than
6 \$1,000,000);
7 4. at the end of the transition period, establishes a surcharge that
8 recovers or refunds the balance in the CTC account.
9

10 Q. What is Citizens' ultimate goal in its proposal for a stranded cost recovery
11 mechanism?

12 A. Citizens' ultimate goal in this proposal is to avoid increasing its business
13 and financial risk, while allowing for a fair and efficient recovery process.
14 Citizens would consider alternative mechanisms that support an efficient
15 open market process, as long as Citizens is made whole for the costs
16 stranded by competition and not put at risk by a lengthy delay in cost
17 recovery.
18

19 Q. Does Citizens continue to support a CTC rate design that employs a flat
20 monthly fee based on historical usage levels.

21 A. No, it does not. Given that dramatic reductions in strandable costs that will
22 result from the recent conceptual agreement with APS, the underlying
23 reasons for its support of CTC rate design are no longer valid. Instead,
24 Citizens supports a CTC rate design based on a per-kWh and/or per-kW
25 charge applicable to current consumption.
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1 Q. Does Citizens have proposals relative to its Unbundled and Standard Offer
2 tariffs?

3 A. Yes, it does. Citizens continues to generally support the tariffs it filed with
4 the Commission July 1, 1999, but proposes that it be allowed to make three
5 substantive adjustments to: 1) implement generation shopping credits for
6 each tariff generally as I have described earlier in my testimony; 2) modify
7 its System Benefits Charge to include DSM and DSM lost net revenue
8 recovery; and 3) to remove Western Area Power Administration ("WAPA")
9 transmission costs from the generation charge and include them instead
10 within the non-bypassable unbundled transmission charge.
11

12 Q. Why should the Commission allow these changes?

13 A. The reasons for implementing generation shopping credits and allowing
14 DSM/DSM lost net revenue recovery have been addressed earlier in my
15 testimony. The reason for allowing Citizens to unbundle its WAPA
16 transmission costs from generation relates to changes in the Commission's
17 Electric Competition Rules.
18

19 Q. Please explain.

20 A. The final Rules approved by the Commission in September 1999 include the
21 provision that "Utility Distribution Companies shall retain the obligation to
22 assure that adequate transmission import capability is available to meet the
23 load requirements of all distribution customers within their service areas."
24 (R14-2-1609B). In Citizens' case, transmission import capability is
25 provided largely through its transmission service contract with WAPA.
26 Since transmission import capability must be maintained for all customers,
27 regardless of whether they are taking competitive or Standard Offer
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1 services, it follows that all customers should pay the costs of these
2 transmission services through a wires charge. Citizens proposes to ensure
3 this occurs by including WAPA costs within the Transmission charge in its
4 tariffs and making that portion of its transmission charge subject to
5 adjustment to reflect increases or decreases in the cost of these services,
6 as is now the case through Citizens' current PPFA mechanism.

7
8 Q. Does this conclude your testimony?

9 A. Yes, it does.
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